Report of the Auditor General of Canada to the Board of Directors of Ridley Terminals Inc.

Independent Auditor's Report

Special Examination—2018

This report reproduces the special examination report that the Office of the Auditor General of Canada issued to Ridley Terminals Inc. on 21 February 2018. The Office has not performed follow-up audit work on the matters raised in this reproduced report.

Office of the Auditor General of Canada

Bureau du vérificateur général du Canada

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Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

Ce document est également publié en français.

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Office of the
Auditor General
of Canada

Bureau du
vérificateur général
du Canada

21 February 2018

To the Board of Directors of Ridley Terminals Inc.:

We have completed the special examination of Ridley Terminals Inc. in accordance with the plan presented to the Board of Directors on 23 May 2017. As required by Section 139 of the *Financial Administration Act*, we are providing the attached final special examination report to the Board of Directors.

We will present this report for tabling in Parliament shortly after it has been made public by Ridley Terminals Inc.

I would like to take this opportunity to express my appreciation to the Board members, management, and the Corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

Marise Bédard

Marise Bédard, CPA, CA
Principal

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Introduction

Background

Role and mandate

1. Ridley Terminals Inc. is a marine terminal at Prince Rupert, British Columbia, offering year-round services of loading and off-loading bulk commodities, such as coal and petroleum coke. It aims to be a terminal that allows Canadian products to reach world markets. Ridley Terminals is a federal Crown corporation established in 1981 under the *Canada Business Corporations Act*.

2. The Corporation's mandate is to construct, own, and operate docks, terminals, elevators, warehouses, storage facilities, and equipment to store and deliver bulk commodities. The Corporation's main customers are coal mines and refineries in northern British Columbia, Alberta, and Saskatchewan.

3. The Corporation does not receive funding from Parliament. It operates as a business, charging fees for its services and reinvesting revenues into its operations.

4. Due to the cyclical nature of the coal and petroleum coke markets, the Corporation has been looking for ways to diversify its revenue sources to better insulate itself from future downturns in the market.

5. The Corporation's infrastructure and equipment is on land leased from the Prince Rupert Port Authority. Recently, the Corporation agreed to sublease part of its leased property to a third party to unload, store, and load liquefied petroleum gas for export. It signed a 20-year lease, with the option to renew for another 20 years.

Nature of business and operating environment

6. The Corporation is governed by a Board of Directors, with a maximum of seven members. During the period covered by the audit, the Board consisted of a Chairperson and three directors. Three other director positions were vacant. The **Governor in Council** appoints the Chairperson and the President and Chief Executive Officer. The Minister appoints the Board members with the approval of the Governor in Council.

7. The Corporation employs 121 employees: approximately 31 corporate employees in operations management, finance, and human resources; and 90 unionized full-time employees in operations.

Governor in Council—The Governor General, acting on the advice of the Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

8. In July 2010, a management consultant firm was tasked with providing managerial oversight. Its goals were to increase efficiency and profitability, attract new customers, and improve service agreements with existing customers. The firm's agreement was for a term of five years and six months. At the end of the term, it was not renewed.

9. The Corporation's cargo volumes have dropped, and its financial results have fluctuated, in recent years (Exhibit 1).

Exhibit 1 The Corporation's cargo volumes and its financial results from 2013 to 2016

	2013	2014	2015	2016
Unloading (in millions of tonnes)	11.7	6.9	4.3	3.8
Ship loading (in millions of tonnes)	11.8	6.9	4.4	4.0
Revenues (in $ millions)	$131.1	$78.4	$91.7	$61.0
Net operating (loss) profit (in $ millions)	$65.0	$17.6	$(67.6)	$(6.1)
Accumulated retained earnings (in $ millions)	$60.3	$66.3	$2.9	$1.6
Source: Annual reports of Ridley Terminals Inc.				

10. The Corporation's annual unloading capacity is 18 million tonnes of coal. It could increase its capacity by 12 million tonnes, but additional investments in new infrastructure to complement the deep-water berth would be required.

11. The Corporation's direction and ownership have long been uncertain. In April 2003, the Department of Transport issued a request for proposals to allow the federal government to assess whether there were commercial investors interested in the terminal and to consider options for the Corporation's future. By 2005, proposals had been submitted, but the sale process was not successful. In December 2012, the Government of Canada again announced its intention to sell the business.

Previous audits

12. We conducted an audit of the Corporation in 2005 and recommended that the Board of Directors continue to work closely with the responsible Minister to resolve any disagreements and to clarify the Corporation's strategic direction. The current special examination was not conducted within the 10 years required by the *Financial Administration Act* because of the uncertainty about the sale status of the Corporation.

Focus of the audit

13. Our objective for this audit was to determine whether the systems and practices we selected for examination at Ridley Terminals Inc. provided the Corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

14. Section 139 of the *Financial Administration Act* also requires that we state an opinion, using the criteria established, as to whether there was reasonable assurance that there were no significant deficiencies in the systems and practices we examined. A significant deficiency is reported when the systems and practices examined did not meet the criteria established. This results in a finding that the Corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

15. Our principal findings are discussed in the **Findings, Recommendations, and Responses** section of this report. A broader selection of systems and practices, and the criteria used to assess them, can be found in the **Appendix—Detailed Findings**.

16. We asked the Board of Directors to confirm whether the audit report was factually accurate. The Board of Directors stated:

> It is unable to confirm whether the audit report is factually accurate. In many instances it is frankly difficult to discern what is being presented as an underlying fact as opposed to a conclusion drawn by the OAG. The updated draft report remains with significant use of overly vague and poorly supported statements, which we believe could lead a reasonable person to logically conclude that the Board has acted recklessly and without regard to proper procedure given the circumstances. Such a conclusion would simply be untrue.

17. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 11–15).

Findings, Recommendations, and Responses

Corporate governance

The Board did not fulfill its oversight role

Overall message →

18. Overall, we found significant deficiencies in Ridley Terminals Inc.'s governance, strategic planning, performance measurement and reporting, risk management, and human resource systems and practices. The Board did not meet its key responsibilities and failed to oversee the management

of the Corporation. For example, the Board went outside the Governor in Council appointment process and hired a President and Chief Operating Officer on contract at a higher level of remuneration than the one set for Governor in Council appointees. The Board also approved and entered into an agreement for a 20-year diversification project even though the project had not been approved in advance by the government.

19. This finding matters because strong oversight by the Board is vital to the Corporation's ability to manage operations, given that its sale status is unclear. Management of operations includes the ability to manage risk and to avoid engaging in long-term agreements that may not be in line with the government's strategy and the *Financial Administration Act*.

20. Our analysis supporting this finding discusses the following topics:

- Improper human resource practices
- Lack of Board oversight
- Lack of advance government approval for a diversification project

Recommendations

21. Our recommendations related to these findings appear at paragraphs 31, 32, 33, and 34.

Analysis to support this finding

22. **Improper human resource practices.** The *Financial Administration Act* provides that the Chief Executive Officer of a Crown corporation, "by whatever name called," must be appointed by the Governor in Council. In November 2016, the Board hired a President and Chief Operating Officer on contract. Our analysis of the functions of the President and Chief Operating Officer concluded that the responsibilities and duties of the position are those of a President and Chief Executive Officer. This hiring action was outside the Governor in Council appointment process; therefore, it did not comply with the *Financial Administration Act*.

23. Also, according to the *Financial Administration Act*, the rate of remuneration paid to a Chief Executive Officer of a Crown corporation is fixed by the Governor in Council. The remuneration of the Corporation's President and Chief Executive Officer position should be at a level of CEO-1, according to the government's appointment process. The Board was of the opinion that a CEO-1 level of remuneration would not attract the right skill set. Therefore, the Board approved a compensation level in the contract that is substantially more than that for a CEO-1. Because the remuneration has been fixed through a signed contract and not an order-in-council, the remuneration has not been publicly disclosed. This has resulted in a lack of transparency for senior management's remuneration.

24. The Board also hired another senior executive. The human resources administrator had not been informed that the new position was needed and had not reviewed the job description. The position was not

internally posted to identify interested internal candidates, and a full search for external candidates was not performed, as required by the Corporation's hiring policy. The Corporation approached an individual, hoping that he would be interested in working at Ridley Terminals Inc. A Board committee discussed the matter and decided to create a senior executive position. The Board interviewed only this individual. The committee determined the salary for the position by comparing it with similar positions, but looked at only those in the private sector. The Board hired this senior executive on contract without consulting the President. We also found that the job description for this position was written only after the candidate had been hired.

25. In another case, the Board approved a proposal to contract the services of another senior executive. About four years after this contract was signed, many of the job duties under this person's responsibility were contracted out in a service agreement to a firm. While the Board approved the service agreement with the firm, it did not ensure that management adjusted the job description, compensation, and contract of the senior executive originally hired to perform many of the duties and responsibilities.

26. We also found that the Corporation did not have an established salary structure for its non-unionized employees and executives. The Corporation had not systematically benchmarked salaries and benefits against those in similar industries and sectors, including other federal entities. The Corporation was seeking a request for proposals (issued June 2017) to establish a salary market review for selected employees.

27. **Lack of Board oversight.** Each year, the Corporation completed corporate plans and submitted them to the Department of Transport. At the end of the period covered by the audit, the 2013–2017 corporate plan was the last approved plan. Only the first two operating years of the plan were approved by the Governor in Council. We found that the Corporation has thus been operating without an approved corporate plan since January 2015. After the period covered by the audit, in November 2017, the Governor in Council approved the 2014–2018, 2015–2019, 2016–2020, and 2017–2021 corporate plans.

28. The terms of reference define the roles and responsibilities of the Board and its committees. We found that the Board and its committees did not carry out the majority of the responsibilities listed in the terms of reference. This left the Corporation without the stewardship it required. We found that the Board had not

- monitored the annual conflict of interest and ethics declarations;
- monitored whether the Corporation was complying with all its legal requirements, including environmental requirements, other than the statutory obligations for pensions, pay deductions, and goods and services tax;

- determined the Corporation's tolerance level for risk and ensured that management had developed a risk management framework, so that it could mitigate and monitor identified risks;
- reviewed and updated its terms of reference annually, as required, which would have allowed it to notice that its terms of reference included tasks that should have been management responsibilities rather than Board responsibilities;
- met the minimum requirements of its terms of reference for the composition of the Board's committees;
- ensured that the Corporation had clearly documented its strategic objectives in its public documents, put in place operational plans, or developed the related performance measurement framework to ensure that results were measured, monitored, and reported;
- ensured that the Corporation identified, through its corporate plan, the resources required to safeguard its assets; the corporate plan included only the maintenance it could financially sustain;
- determined the appropriate abilities, skills, and knowledge it needed to carry out its roles and responsibilities;
- periodically evaluated its performance and that of its committees; and
- documented meeting minutes to demonstrate that the Board had questioned and analyzed decisions taken.

29. We also found that many positions on the Board were vacant. The Corporation has informed the Department of Transport that more Board members need to be appointed. After the period covered by the audit, in February 2018, the Minister of Transport announced the reappointment of one director and the appointment of three new directors.

30. **Lack of advance government approval for a diversification project.** According to the *Financial Administration Act*, Crown corporations obtain approval for a new line of business when the Governor in Council approves the corporate plan on the recommendation of the Minister. As mentioned above, the Corporation had operated without an approved corporate plan since January 2015. In 2015, management received Board of Directors approval for a liquid gas diversification project in which the Corporation subleased part of the property it leases to another corporation. At that time, Treasury Board Secretariat representatives noted in correspondence with the Corporation's management that the Corporation had not yet obtained the Governor in Council approval for this project. Nonetheless, the Corporation signed a 20-year agreement for its liquid gas propane project, with an option for the other corporation to sublease for an additional 20 years.

31. **Recommendation.** The Board and its committees should ensure that they fulfill all their responsibilities. These include reviewing their terms of reference and establishing frameworks for performance measurement and risk management.

The Corporation's response. *Agreed. Ridley Terminals Inc. understands that additional Board members will be appointed by the Department of Transport soon. Having a sufficient slate of directors will assist Ridley Terminals Inc. in constituting its committees and satisfying this recommendation.*

32. **Recommendation.** The Corporation should continue to engage with the Minister of Transport on the need to appoint in a timely way the required number of members to the Board. It should also comply with the *Financial Administration Act* and Governor in Council requirements for the President and Chief Executive Officer position.

The Corporation's response. *Agreed. Ridley Terminals Inc. has continued to take steps in this regard and understands that additional Board members should be appointed soon. However, Ridley Terminals Inc. emphasizes that the appointment of new Board members and the appointment of a Chief Executive Officer is not within its control.*

33. **Recommendation.** The Corporation should work with the Department of Transport and the Treasury Board Secretariat to clarify when and how it needs approval for decisions to diversify its activities.

The Corporation's response. *Agreed. Ridley Terminals Inc. has already taken steps to improve this and is seeking out new communication channels.*

34. **Recommendation.** The Corporation should document its succession planning for senior management and other critical positions as well as comply with its hiring policy to meet best practices and government processes. The Corporation should also consider explaining and disclosing in its annual report its compensation framework.

The Corporation's response. *Agreed. Ridley Terminals Inc. acknowledges that improvements could be made to its succession planning process and will also consider improvements in the explanation and disclosure of its compensation framework.*

Department of Transport's oversight

The Department of Transport did not support the Corporation in some important areas

Overall message

35. Overall, we found that the Department of Transport's oversight of Ridley Terminals Inc. was insufficient in some important areas. For example, the Department did not ensure that the Corporation followed the Governor in Council appointment process when it knew that the Corporation intended to hire a new President and Chief Operating Officer outside of that process. The Department also did not submit corporate plans to the Treasury Board for approval, resulting in the Corporation's operating without government approval. Although the Corporation discussed with the Department of Transport its intentions to diversify, the Department was unable to provide any documentation to show that it had provided any guidance or advice to the Corporation on signing an agreement for its diversification project. The Department further failed to support the Corporation by not clearly communicating whether Ridley Terminals Inc. was still for sale or not.

36. This finding matters because the Department of Transport's lack of oversight and clear strategic direction hindered the Corporation in its ability to make decisions about its future while operating within its authority.

37. Our analysis supporting this finding discusses the following topics:

- Poor support for Governor in Council appointments
- Unapproved corporate plans
- Lack of approval for a diversification project
- Unclear status of the sale of the Corporation

Recommendations

38. Our recommendations related to these findings appear at paragraphs 44 and 45.

Analysis to support this finding

39. **Poor support for Governor in Council appointments.** As mentioned in paragraphs 22 and 23, the position of the President and Chief Executive Officer is a Governor in Council appointment. The Department plays a key role in this process. The Minister of Transport is required to consult the Board of Directors with respect to the Governor in Council appointments. The Department of Transport's officials knew that the Corporation was planning to contract the position of President and Chief Operating Officer. The Department also knew the Corporation's view of the government's CEO-1 compensation level. The Department informed us that it had discussed the contract with the Corporation but did not stop the Corporation from proceeding with it. The Department did

inform the Corporation that its actions did not comply with the *Financial Administration Act* and that someone could still be appointed through the Governor in Council appointee process.

40. According to the *Financial Administration Act*, each director of a Crown corporation is appointed by the responsible Minister, in this case the Minister of Transport, with the approval of the Governor in Council. The Board had discussed Board renewal issues in 2016 with the Department's officials. Three Board positions were vacant and two directors had asked to be replaced. By June 2017, at the end of the period covered by the audit, Board renewal efforts had not been successful. In September 2017, a new Chairperson was appointed to replace the interim Chairperson, who had asked to be replaced. In February 2018, the Minister of Transport announced the reappointment of one director and the appointment of three new directors.

41. **Unapproved corporate plans.** Corporate plans outline a five-year strategic and financial direction. Crown corporations update their corporate plans annually and submit them to the Minister of their responsible department—the Minister of Transport in the case of Ridley Terminals Inc. The Department provided the Corporation with comments on its various plans but did not submit the Corporation's plans to the Treasury Board for approval. As a result, those plans were not approved. The Department of Transport has not ensured that the Corporation functioned under government-approved corporate plans since 2015. After the end of the period covered by the audit, in November 2017, the Governor in Council approved the 2014–2018, 2015–2019, 2016–2020, and 2017–2021 corporate plans.

42. **Lack of approval for a diversification project.** We have found correspondence between the Department of Transport and the Corporation regarding the Corporation's intentions to diversify its operations through multiple diversification projects. The Department of Transport advised the Corporation in an August 2016 letter that it could not sign a binding agreement for one of its diversification projects because it did not have an approved corporate plan that would give it the authority and approval to diversify its activities. Department officials also knew about another diversification project (subleasing to a third party to operate a liquid gas facility), but the Department could not provide us with any documents to show that it advised the Corporation on signing an agreement for its liquid gas project.

43. **Unclear status of the sale of the Corporation.** Ridley Terminals Inc.'s officials told us that another Crown corporation tasked with selling Ridley Terminals Inc. informed them that the sale status was on hold. In its review of the Corporation's corporate plans, the Department of Transport did not clarify whether the Corporation was still for sale. The Department informed us that the Corporation was no longer for sale, but

it did not formally confirm this with the Corporation. In our view, until the Corporation has full knowledge as to whether it is going to be sold, it cannot set its long-term strategic direction with any certainty.

44. **Recommendation.** The Department of Transport should work with the Corporation to review whether the remuneration level of its President and Chief Executive Officer is appropriate for the position and to appoint the position through the Governor in Council process.

The Department's response. *Agreed. The Department of Transport will work with the Corporation and the Privy Council Office to review whether the remuneration level of the Corporation's President and Chief Executive Officer is appropriate for the position.*

The Department of Transport will work with the Privy Council Office to ensure that a future appointment of a President and Chief Executive Officer is conducted through the government's new selection process for Governor in Council appointees that is transparent, open, and merit-based and respects Canada's diversity.

45. **Recommendation.** The Department of Transport should clearly inform the Corporation on the status of its sale.

The Department's response. *Agreed. The Department of Transport will clearly inform the Corporation on the status of its sale, including providing updates to the Corporation regarding any key developments.*

Conclusion

46. In our opinion, based on the criteria established, there were significant deficiencies in Ridley Terminals Inc.'s systems and practices that we examined for governance, strategic planning, performance measurement and reporting, risk management, and human resources. As a result of the pervasiveness of these significant deficiencies, we concluded that the Corporation had not maintained these systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada on Ridley Terminals Inc. Our responsibility was to express

- an opinion on whether there is reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the Corporation's systems and practices that we selected for examination; and
- a conclusion about whether the Corporation complied in all significant respects with the applicable criteria.

Under section 131 of the *Financial Administration Act* (FAA), Ridley Terminals Inc. is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that

- its assets are safeguarded and controlled;
- its financial, human, and physical resources are managed economically and efficiently; and
- its operations are carried out effectively.

In addition, section 138 of the FAA requires the Corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard for Assurance Engagements (CSAE) 3001—Direct Engagements set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office applies Canadian Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we have complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from management:

- confirmation of management's responsibility for the subject under audit;
- acknowledgement of the suitability of the criteria used in the audit; and
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided.

Ridley Terminals Inc.'s management refused to confirm that the audit report was factually accurate.

Audit objective

The objective of this audit was to determine whether the systems and practices we selected to examine at Ridley Terminals Inc. provided it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the FAA.

Scope and approach

Our audit work examined Ridley Terminals Inc. The scope of the special examination was based on our assessment of the risks the Corporation faces that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

In performing our work, we tested the systems and practices selected for examination by reviewing key documents and observing operations at the Corporation's terminal. We selected and tested samples of items, such as agreements, logs, statements, and other process control activities and reports, to determine whether systems and practices were in place and functioned as intended. We also interviewed members of the Board of Directors, senior management, and other employees of the Corporation. Our testing, including interviews of management, took place between 15 September 2016 and 30 June 2017 and covered the full period of the audit.

A broad selection of the systems and practices that we examined for each area of the audit can be found in the **Appendix—Detailed Findings** in this report.

In carrying out the special examination, we did not rely on any internal audits.

Audit criteria and sources

The following is a complete list of criteria used to assess the systems and practices selected for examination. Criteria that led to key findings are also listed in the **Appendix—Detailed Findings**.

Governance

Criteria

The Board functioned independently.

The Board provided strategic direction.

The Board carried out its oversight role over the Corporation.

The Board collectively had capacity and competencies to discharge its responsibilities.

Sources

20 Questions Directors Should Ask about Crown Corporation Governance, Canadian Institute of Chartered Accountants, 2007

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board Secretariat, 1996

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, April 2016

Strategic planning and performance measurement and reporting

Criteria

The Corporation had a framework to define its strategic plan and objectives.

The Corporation established performance measures in support of achieving strategic objectives.

The Corporation monitored and reported on progress in achieving its strategic objectives.

The Corporation had a framework to identify, evaluate, and realize its diversification projects.

Sources

20 Questions Directors Should Ask about Crown Corporation Governance, Canadian Institute of Chartered Accountants, 2007

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

20 Questions Directors Should Ask about Strategy, third edition, Canadian Institute of Chartered Accountants, 2012

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board Secretariat, 2005

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board Secretariat, 1996

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

Innovation—Tools, Policy and Guidance, Wales Audit Office, 2013

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), fourth edition, Project Management Institute Inc., 2008

Plan-Do-Check-Act management model adapted from the Deming Cycle

Risk management

Criteria

The Corporation identified and assessed risks to achieving strategic objectives.

The Corporation defined and implemented risk responses.

The Corporation monitored and reported on the implementation of risk mitigation measures.

Sources

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board Secretariat, 1996

Human resources

Criteria

The Corporation performed succession planning for key positions to ensure that the organization achieves corporate objectives.

The Corporation had a compensation strategy that contributes to attracting, retaining, and rewarding employees and to achieving corporate objectives and ensuring internal equity.

Sources

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Ultimate HR Manual, Human Resource Professionals Association and CCH

Policy Framework for the Management of Compensation, Treasury Board Secretariat, 2007

Crown Corporation Executive Compensation Policy, BC Ministry of Finance, 2012

HR Toolkit: Compensation & Benefits, hrcouncil.ca

Operation management—service delivery

Criteria

The Corporation defined operational plans that were aligned with strategic plans and the mandate to deliver expected results.

The Corporation ensured that it managed service agreements according to deadlines, budgets, and client requirements.

The Corporation monitored and reported on its operational results.

The Corporation ensured a safe and healthy workplace.

The Corporation planned for the maintenance of its capital assets and for the purchase and the modification of its plant and equipment in order to safeguard its assets and enable continuous and efficient operations.

Sources

Ridley Terminals Inc.'s articles of incorporation

2016–2020 Ridley Terminals Inc. Corporate Plan

Ultimate HR Manual, Human Resource Professionals Association and CCH

Policy on Learning, Training, and Development, Treasury Board, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Directive on Performance Management, Treasury Board, 2014

Guidelines for the Preparation of Corporate Plans, Treasury Board Secretariat, 1996

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), fourth edition, Project Management Institute Inc., 2008

COBIT 5 Framework—APO05 (Manage Portfolio), APO09 (Manage Service Agreements); BAI01 (Manage Programmes and Projects); EDM02 (Ensure Benefits Delivery), ISACA

Plan-Do-Check-Act management model adapted from the Deming Cycle

Financial Administration Act

Policy on Occupational Safety and Health, Treasury Board

Policy Framework for People Management, Treasury Board Secretariat, 2010

Ridley Terminals Inc. Health, Safety, Environment and Quality Policy

ISO 14001—Environmental Management Systems, International Organization for Standardization

ISO 55000:2014: Asset Management—Overview, Principles and Terminology, International Organization for Standardization

Period covered by the audit

The special examination covered the period between 15 September 2016 and 30 June 2017. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the starting date of the special examination.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 26 January 2018, in Ottawa, Canada.

Audit team

Principal: Marise Bédard
Director: Mélanie Cabana

Emmanuel Angrand
Jean-Philippe Lachapelle
Eric Provencher
Alexandre Tremblay

List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Corporate governance	
31. The Board and its committees should ensure that they fulfill all their responsibilities. These include reviewing their terms of reference and establishing frameworks for performance measurement and risk management. **(27–29)**	**The Corporation's response.** Agreed. Ridley Terminals Inc. understands that additional Board members will be appointed by the Department of Transport soon. Having a sufficient slate of directors will assist Ridley Terminals Inc. in constituting its committees and satisfying this recommendation.
32. The Corporation should continue to engage with the Minister of Transport on the need to appoint in a timely way the required number of members to the Board. It should also comply with the *Financial Administration Act* and Governor in Council requirements for the President and Chief Executive Officer position. **(22–26)**	**The Corporation's response.** Agreed. Ridley Terminals Inc. has continued to take steps in this regard and understands that additional Board members should be appointed soon. However, Ridley Terminals Inc. emphasizes that the appointment of new Board members and the appointment of a Chief Executive Officer is not within its control.
33. The Corporation should work with the Department of Transport and the Treasury Board Secretariat to clarify when and how it needs approval for decisions to diversify its activities. **(30)**	**The Corporation's response.** Agreed. Ridley Terminals Inc. has already taken steps to improve this and is seeking out new communication channels.
34. The Corporation should document its succession planning for senior management and other critical positions as well as comply with its hiring policy to meet best practices and government processes. The Corporation should also consider explaining and disclosing in its annual report its compensation framework. **(24–26)**	**The Corporation's response.** Agreed. Ridley Terminals Inc. acknowledges that improvements could be made to its succession planning process and will also consider improvements in the explanation and disclosure of its compensation framework.

Recommendation	Response
Department of Transport's oversight	
44. The Department of Transport should work with the Corporation to review whether the remuneration level of its President and Chief Executive Officer is appropriate for the position and to appoint the position through the Governor in Council process. **(39)**	**The Department's response.** Agreed. The Department of Transport will work with the Corporation and the Privy Council Office to review whether the remuneration level of the Corporation's President and Chief Executive Officer is appropriate for the position. The Department of Transport will work with the Privy Council Office to ensure that a future appointment of a President and Chief Executive Officer is conducted through the government's new selection process for Governor in Council appointees that is transparent, open, and merit-based and respects Canada's diversity.
45. The Department of Transport should clearly inform the Corporation on the status of its sale. **(43)**	**The Department's response.** Agreed. The Department of Transport will clearly inform the Corporation on the status of its sale, including providing updates to the Corporation regarding any key developments.

Appendix—Detailed Findings

Corporate management practices

Exhibit 2 Corporate governance—key findings and assessments

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board independence	The Board functioned independently.	**Weaknesses** Directors did not systematically complete conflict-of-interest declarations. The Board did not review and approve the Corporation's values as required by the Board manual.	
Providing strategic direction	The Board provided strategic direction.	**Deficiency** During our audit period, the Corporation operated without an approved corporate plan from January 2015.	
Board oversight	The Board carried out its oversight role over the Corporation.	**Deficiencies** The Corporation did not communicate fully with the Department of Transport about the Corporation's sale status. The composition of committees did not meet the minimum requirements of the Corporation's terms of reference. The Board did not regularly review the terms of reference. Management provided the Board with incomplete information. As a result, it could not perform its oversight of the Corporation. Management did not regularly report to the Board about whether the Corporation had complied with other legal requirements (federal, provincial, and other). The Corporation did not monitor and periodically report to the Board on its ethical performance. The Board did not periodically evaluate its performance and that of its committees.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Exhibit 2 Corporate governance—key findings and assessments (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The Board collectively had capacity and competencies to discharge its responsibilities.	**Deficiencies** The Board did not perform periodic assessments to determine whether its members had the appropriate abilities, skills, and knowledge to carry out their necessary roles and responsibilities. Board renewal efforts have not been successful.	⊖

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

⊖ Did not meet the criteria

Exhibit 3 Strategic planning, and performance measurement and reporting—key findings and assessments

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning processes	The Corporation had a framework to define its strategic plan and objectives.	**Weaknesses** The Corporation established strategic objectives. However, they were not clearly documented. Because the Corporation did not establish performance measures, it did not measure or report on performance.	!
Performance measurement	The Corporation established performance measures in support of achieving strategic objectives.	**Deficiency** The Board discussed the Corporation's performance for certain strategic objectives, such as diversification. However, the Corporation did not have a systematic performance measurement process for strategic objectives.	⊖
Performance monitoring and reporting	The Corporation monitored and reported on progress in achieving its strategic objectives.	**Deficiency** The Corporation did not periodically monitor progress against all strategic objectives.	⊖

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

⊖ Did not meet the criteria

Exhibit 3 Strategic planning, and performance measurement and reporting—key findings and assessments (continued)

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Diversification	The Corporation had a framework to identify, evaluate, and realize its diversification projects.	**Deficiency** The Corporation reported to the Board and received Board approval for the liquid gas diversification project. However, the Corporation entered into a long-term agreement for this project without having obtained advance approval from the Government of Canada.	

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Exhibit 4 Risk management—key findings and assessments

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The Corporation identified and assessed risks to achieving strategic objectives.	**Weaknesses** While the Corporation identified, assessed, and documented its key risks, it did not document how it prioritized the strategic, operational, and environmental risks it identified according to the potential impacts of the risks and the Corporation's level of tolerance for the risks. The Corporation did not document its environmental risks.	
Risk mitigation	The Corporation defined and implemented risk responses.	**Weakness** While the Corporation had identified high-level mitigation strategies for its key corporate risks, these strategies were not detailed enough to help manage the risks.	
Risk monitoring and reporting	The Corporation monitored and reported on the implementation of risk mitigation measures.	**Deficiency** The Corporation did not monitor risk mitigation and did not report on the matter.	

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Exhibit 5 Human resources—key findings and assessments

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Succession planning for senior management / critical positions	The Corporation performed succession planning for key positions to ensure that the organization achieved corporate objectives.	**Deficiency** The Corporation had not performed succession planning for senior management positions.	⊖
Compensation	The Corporation had a compensation strategy that contributed to attracting, retaining, and rewarding employees and to achieving corporate objectives and ensuring internal equity.	**Deficiency** The Corporation did not have a documented or complete compensation strategy or framework for employees and executives.	⊖

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

⊖ Did not meet the criteria

Management of operations

Exhibit 6 Service delivery—key findings and assessments

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The Corporation defined operational plans that were aligned with strategic plans and the mandate to deliver expected results.	The Corporation established budgets and performance measures for operations and regularly tracked them against actual figures. **Weakness** The Corporation had not documented a business unit operational plan.	
Service management	The Corporation ensured that it managed service agreements according to deadlines, budgets, and clients' requirements.	The Corporation had a process to manage service agreements to ensure they met clients' requirements while respecting deadlines and budgets. The Corporation ensured that the ownership of material "in consignment" was maintained with minimal cross-contamination. The Corporation had a process to plan its machinery equipment needs to ensure it delivered services. The collective agreement dictated the process to plan and schedule the Corporation's human resource needs.	
Performance monitoring and reporting	The Corporation monitored and reported on its operational results.	The Corporation had systems and practices in place to monitor and report on its operational results.	
Capital asset management	The Corporation planned for the maintenance of its capital assets and for the purchase and modification of its plant and equipment in order to safeguard its assets and enable continuous and efficient operations.	**Weakness** The Corporation delayed maintaining some of its significant assets because of its financial position.	
Healthy and safe workplace	The Corporation ensured a safe and healthy workplace.	The Corporation had systems and practices in place to ensure a safe and healthy workplace.	

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria